Is Now the Right Time to Buy Magna Stock?

Description

Automotive industry manufacturing contracting giant **Magna International** (TSX:MG) is on an impressive revenue and earnings recovery path. In turn, Magna stock price has gained more than 19.7% during the past month. Wall Street analysts expect the company's fourth-quarter earnings to build on the strong momentum seen during the third quarter. Could this be the right time to buy Magna stock for quick capital gains?

The decision whether to buy or make a pass on Magna stock may depend more on your intended holding period. A short-term trade could ride on current momentum. However, the best returns could accrue to the long-term shareholder who may enjoy the full upside of Magna's ongoing investments into the car of the future as the automotive industry undergoes a transformation.

Magna's strong revenue and earnings recovery path to support stock price rally

Magna International reported US$9.3 billion in revenue for the third quarter, up 17% on a consolidated basis. Interestingly, the top line increased by 27% on an organic growth basis, or 3% faster than the entire car industry. Global automotive production saw 24% growth during the quarter. Magna could have scored some market share gains there.

Most noteworthy, the company's adjusted earnings per share (EPS) of US$1.07 increased 91% year over year and improved sequentially. The business continued to recover from a COVID-19 slump. Although higher inflation and rising energy costs ate into profits. Magna has been able to pass on some costs to customers, hedge against energy expenses, and manage through currency fluctuations. The company remains profitable, and its adjusted earnings margins have improved as production increased coming out of the pandemic.

That said, supply constraints, especially due to semiconductor shortages, remain. Productivity improvements during the third quarter and going into the fourth quarter were not as great as management had previously anticipated – and production rescheduling remains a cause of inefficiencies while input costs remain elevated. Therefore, Magna revised its free cash flow earnings margin expectations for the full year.

Wall Street analysts project lower than 5% revenue growth for the fourth quarter, which could be accompanied by a 7% year-over-year increase in EPS. Magna is still on a superb recovery path. Analysts believe revenue and earnings could surpass pre-pandemic levels in 2023. Higher earnings, more positive free cash flow, sustained dividend growth, and share repurchases may support Magna stock price recovery through 2023.

Should you buy Magna stock for the long term?

Magna's continued innovation drive makes it a preferred Tier 1 vehicle production partner in an evolving automotive industry that's electrifying drive terrains that are drifting towards being autonomously driven.
The company's capital investments in electric vehicle battery enclosures, scalable hybrid technology, autonomous driving capabilities, and a recent joint venture with LG to supply inverters, motors, and onboard chargers opened new business lines to support customers' powertrain electrification plans for North America's hybrid vehicles market.

MG's assets are well-primed to remain relevant as the automotive industry goes through a rapid transformation. Meanwhile, its legacy business lines including seating systems, lighting, and the like remain relevant, even as electrification gathers pace. A recent Yulu investment and debut into the two-wheel electrified motorcycle market increased Magna's exposure to India's fast-growing mobility as a service market.

Most noteworthy, Magna stock looks as cheap as an undervalued stock today with a forward price to earnings (PE) multiple of 9.9. This valuation compares favourably against a PE of 20.1 for the entire industry.

The company has grown its dividends at an average of 10% per annum over the past five years. The current quarterly dividend yields 2.9% and the payout is well covered by earnings and positive free cash flow. There's a dividend growth angle to consider for passive income investors looking at Magna stock, too.

The key risk to consider before taking the plunge – a recession!

The automotive industry is historically very susceptible to economic recessions. Rising interest rates and lower affordability usually kill consumer demand going into, and during recessionary times.

That said, during an earnings conference call early in November, management at Magna said it makes long-term 3-5 year production plans with its customers, and they aren't bringing up any conversations around altering production volumes yet, even as recession talks get louder in the financial markets.

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